

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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| In the Matter of |) | |
| |) | |
| Developing a Unified Intercarrier |) | CC Docket No. 01-92 |
| Compensation regime |) | |

COMMENTS OF PARRISH, BLESSING & ASSOCIATES

August 21, 2001

SUMMARY

Parrish, Blessing & Associates, Inc. (PBA) submits these comments on the development of the FCC's intercarrier compensation regime. PBA is an economic consulting firm with its primary clients being mid-size local exchange carriers (Mid-Size LECs).

PBA reviews the evolution of interstate rate regulation beginning before the 1960s when AT&T was the only long-distance provider, with their rates informally negotiated under the "continued surveillance" of the FCC. This was followed by the establishment of rate-of-return regulation when long-distance competition began to develop, and then by price cap regulation in the late 1980s. PBA then explains how the price cap annual adjustment criteria became increasingly more difficult over the years, and how price cap regulation failed to provide the market emulation originally sought.

PBA discusses access pricing and how it differs from interconnection pricing which arose after passage of the Telecommunications Act of 1996, and which also gave rise to mandatory reciprocal compensation arrangements. Emphasis is given to difficulties arising from CLECS, ISPs and CMRS providers being exempt from access charges when they connect to LEC networks.

PBA discusses problems arising from the different forms of intercarrier compensation extant today. These include regulatory arbitrage, terminating access monopolies, different network types possibly requiring different interconnection rates, and the impact of many types of intercarrier compensation on end user charge rates as well as on customers' subscription decisions.

PBA notes that the recent CALLS plan approved for price cap LECs and the MAG plan under consideration for rate-of-return LECs will help alleviate some of the pricing problems that now exist. The FCC is urged to move quickly to adopt the MAG plan.

PBA expresses its concern that the Commission's bill and keep proposals raised in the NPRM will harm universal service in areas beyond metropolitan centers. It notes the 1996 Act requirements for reasonably comparable services and prices being available in rural areas as well as in urban areas, and contends that a bill and keep approach will jeopardize that standard. These proposals will shift the full burden of non-traffic sensitive costs to local ratepayers, and provide yet another windfall cost reduction to IXC's. This could drive subscribers from the network in areas of lesser economic development and in more remote areas. Therefore, the Commission is urged to base evolution toward a comprehensive intercarrier compensation regime on several years experience under the CALLs and MAG plans.

If the Commission proceeds with adoption of a bill and keep plan, PBA contends that it will eliminate any remaining distinctions between local and long-distance service. The Commission must therefore recognize that capturing the end user customer for all telecommunications services will become the measure, whether the provider is a LEC, IXC, CLEC, CMRS provider, or wireless provider. The customer should be able to specify one provider for all its telecommunications services, and should be given a chance to do so through a nationwide round of presubscription.

Under a bill and keep regime, the Commission must also expand interconnection to include interconnection with IXC facilities. Further, all

telecommunications providers should be declared non-dominant and detariffed as a first step toward full deregulation at the federal level. States would have a time period to sunset their regulation of intrastate services. Where services remain subject to regulatory oversight, the only applicable cost standard would be carriers' actual cost under foreseeable and committed-to demand levels.

FCC adoption of a bill and keep approach would also necessitate resolving remaining issues, including carrier of last resort status being made applicable to all providers as designated by state commissions, with the proviso that recovery of cost shortfalls would come from universal service type funding. Meaningless distinctions would be eliminated, including jurisdictional separations and LATAs. Transitional mechanisms would be provided as necessary. Alternative mechanisms, such as capacity pricing and modifications to existing regulatory structures, would be given full consideration prior to embarking on a bill and keep approach.

In concluding, PBA urges the Commission to be very cautious in abandoning the present regulatory structure in favor of an untried bill and keep approach. Customer impacts must be carefully assessed before moving to a bill and keep approach, and steps must be taken to level the regulatory landscape equitably for all telecommunications providers.

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